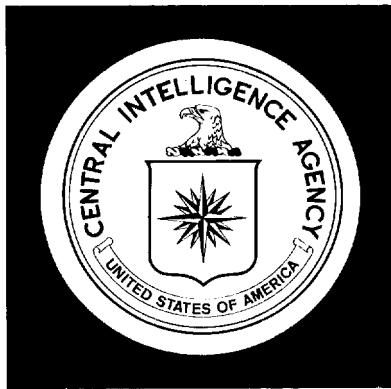


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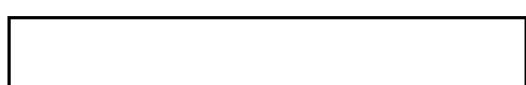
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WEST GERMANY: West German Defense Minister Leber, discouraged by the continuing drift in Atlantic relations, is more than ever convinced that close US - West German defense ties are vital for Germany's security. Leber has taken a strong stand in the West German cabinet sessions for "effective consultations" with the US.

A senior Defense Ministry source reports Leber is disheartened by the negative attitudes expressed recently by the French toward European and Franco-German defense cooperation, the likelihood of reduced British defense efforts, and the slow progress in NATO on defense cooperation.

During the Bundestag debate on national defense issues on March 27, Leber rebuked Paris for its go-it-alone attitude and stressed Western Europe's dependence on the US and NATO. Leber's parliamentary address came just two days after the French ambassador informed him that the Quai had vetoed proposed Franco-German talks on the employment of French troops in the Federal Republic. In addition, Leber had recently received a report from the German Embassy in London describing the new Labor government's plans to reduce defense expenditures and to initiate a study of possible British force reductions in the second stage under an MBFR agreement.

Leber has persuaded the current Eurogroup chairman, Norwegian Defense Minister Fostervoll, to call a meeting in early May for "stocktaking and planning." Leber apparently plans to press for further steps toward defense coordination and cooperation, but he has privately expressed doubts about achieving success.

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ISRAEL-SYRIA: When Israeli Defense Minister Dayan arrives in Washington today for talks with Secretary Kissinger, he reportedly will bring a detailed proposal for disengagement of Israeli and Syrian forces.

According to the influential Israeli daily Haaretz, Tel Aviv's proposal would include withdrawal by Israel within the salient occupied during the October war to a distance of about 15 kilometers. Ten kilometers would be returned to Syria and UN forces would occupy a five-kilometer area between the Syrians and the Israelis. The Israelis would retain a five-kilometer area within the salient.

Under this Israeli plan, forces within the salient would be reduced, with a thinning out of forces--especially artillery--to an additional depth of 20 kilometers on each side. In the area south of the salient where the 1967 cease-fire line still divides the adversaries, a narrow no man's land would be created with forces thinned out on either side. According to Haaretz, POWs would have to be exchanged before any withdrawal takes place.

The Israelis are aware that their proposal would be unacceptable to the Syrians, who have insisted on immediate Israeli withdrawal from all the territory occupied last October as well as Israeli evacuation of the town of Al-Qunaytirah, captured by the Israelis in 1967. The Syrians have also publicly insisted that an Israeli commitment to withdraw from all the occupied territories is a precondition for a disengagement agreement.

Israeli commentators note that Dayan does not expect any concrete results from the Washington meeting. Dayan himself, speaking to a United Jewish Appeal group on March 26, said that agreement might be reached "during the summer." According to the US Embassy in Tel Aviv, the Israelis appear to be

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prepared to see negotiations with Syria drag out for several months and may be looking for some softening in the Syrian stand to move the process along. Clearly, both sides will have to modify their extreme positions if there is to be progress toward disengagement.

The current confrontation along the Golan front, now in its third week, has been primarily the result of a Syrian initiative intended at least in part to bring pressure for a settlement. The Israeli response has varied widely. On several occasions they chose not to return the Syrian fire, but in most cases they took part in artillery exchanges until the UN observers could arrange a cease-fire. Israeli artillery, however, opened the heavy exchanges that lasted some 14 hours on March 27.

It is unlikely that this action signifies an Israeli intent to expand the confrontation or to begin an offensive against the Syrian forces. The Israelis probably do not view their initiative in the engagement on March 27 as a significant escalation of tension, but rather as a demonstration of their strength and capability to respond in kind to a confrontation created by Syria.

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SYRIA-EGYPT: Despite the verbal tributes to Arab solidarity, the meeting in Tunis this week of the Arab League Council revealed growing differences between Damascus and Cairo.

Egyptian Foreign Minister Fahmi, who may not have planned to attend the meeting, told the US ambassador in Cairo that Syrian Foreign Minister Khaddam's hard line prompted him to fly to Tunis on March 27, two days after the session began. He charged that Khaddam's activities seemed designed to erode Egyptian-Saudi diplomatic efforts to bring about disengagement on the Golan front and were also intended to criticize the lifting of the oil embargo as premature. After Fahmi's departure from Tunis, Khaddam held a news conference in which he stated that any military disengagement on the Syrian front must be linked to a formal Israeli commitment to evacuate all Arab territories occupied in the 1967 war and to recognize the rights of the Palestinians.

Syria also raised strong objections to the Egyptian plan to postpone the Arab summit originally scheduled for April. Damascus is anxious to get an early public reaffirmation of Arab unity and support in order to ensure that other Arabs--especially Egypt and Saudi Arabia--do nothing further to weaken Syria's bargaining position. Khaddam apparently lost this battle; it was announced yesterday that the summit would be held in Rabat in September. The council conceded, however, that Syria could convene a summit at any time if it felt that the military situation required an urgent meeting.

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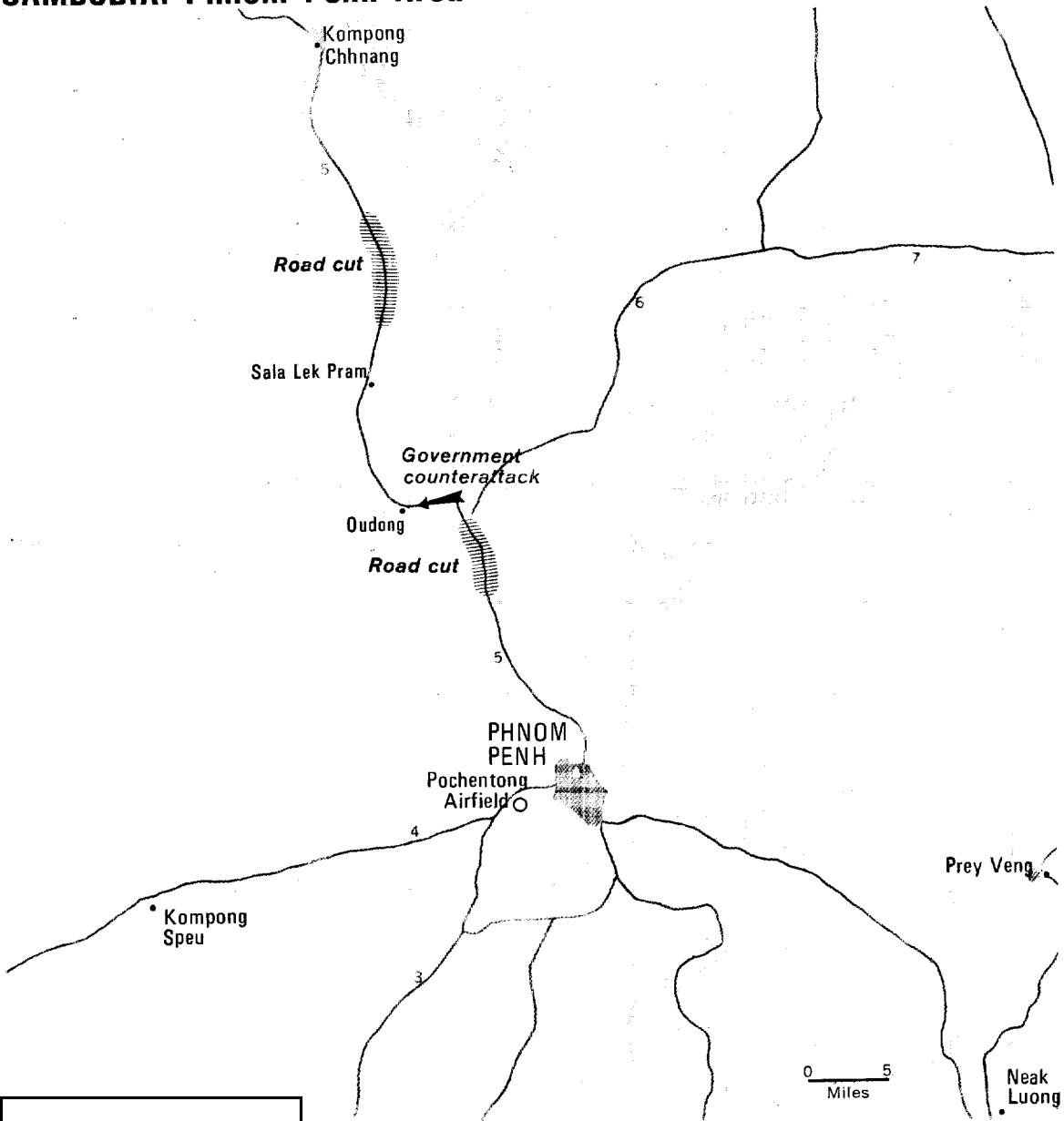
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CAMBODIA: Phnom Penh Area



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CAMBODIA: The government is still determined to retake Oudong and is committing additional forces to the counterattack there. Eight Cambodian Army battalions supported by artillery and armor are now attacking from the east, and more infantry reinforcements are en route from Phnom Penh.

Remnants of Oudong's garrison yesterday were forced to abandon remaining positions on the town's outskirts after Khmer Communist artillery set off ammunition stocks. These troops and large numbers of civilians are moving toward government lines a mile east of the town. The confused situation is hampering tactical air operations.

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In the southwest, Communist forces have stepped up their attacks against Kampot City in the past few days. Although government casualties have been light, some of the fighting has occurred within a mile of the city. The army commander at Kampot believes that the insurgents will soon try to close the narrow waterway vital to navy resupply operations.

Representatives of Sihanouk's "government" abroad are being urged to exploit the capture of Oudong.

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WEST GERMANY - SOUTH VIETNAM: The West German Foreign Ministry recently agreed in principle to an aid package for South Vietnam, amounting to more than \$17 million. The agreement will be sent to Saigon for final signature after clearance with the Bonn government. If the package is accepted by Saigon, discussions on specific projects could begin by mid-summer.

Saigon has been seeking foreign aid aggressively and has achieved only limited success. The Thieu government is feeling the pinch of reduced real levels of US aid and has been unable to proceed with reconstruction and development projects.

Bonn's aid program to South Vietnam was first outlined last fall when a West German delegation recommended the \$17-million package, mainly project assistance. Projects considered then included agricultural mechanization, rice storage units, and water and electricity systems. Although the terms of the aid package were not specified, it is most likely that Bonn will provide a 30-year untied loan at a low interest rate. The German package will do little in the short-run to solve Saigon's balance-of-payments problems, but it could nonetheless encourage other potential aid donors to go ahead with plans to provide economic assistance.

In contrast to the progress in its aid program for Saigon, Bonn is still withholding assistance from North Vietnam, largely because of Hanoi's continuing violations of the Paris accords as well as its demands for recognition of the PRG. Hanoi's intransigent attitude has been a major obstacle to its prospects for non-Communist aid, discouraging every major potential non-Communist donor except Sweden from providing a significant amount of reconstruction assistance.

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CHILE-PERU: The territorial dispute between Chile and Peru could involve the US under the terms of a 1929 treaty that demarcated their boundary and formalized the results of the War of the Pacific. The treaty provides for the settlement of disagreements over interpretation "by the President of the United States."

The Peruvian military has long pledged to recover the territory it lost in the war of 1879 before the passing of a century. Recent diplomatic and military maneuvering by both sides attests to the seriousness with which each views the possibility of eventual armed conflict.

Peru suspects that Chile plans concessions to landlocked Bolivia involving Arica, a port that once belonged to Peru. Lima has reminded La Paz and Santiago that a supplementary protocol to the 1929 treaty--which was made "an integral part" of the treaty itself--prohibits Chile or Peru from ceding any of the territory involved to a third power without previous mutual agreement.

Chile is not planning to cede Arica to Bolivia outright, but is considering converting the city into an international free port. Such a move would be intended primarily to deter aggressive Peruvian revanchism. Peru almost certainly would challenge a significant change in the city's status made without prior consultation as a violation of the treaty. The US might then be drawn into the controversy.

The US is not a signatory to the treaty or the protocol, but the Harding, Coolidge, and Hoover administrations mediated between the parties and the treaty's preamble notes that the accord was concluded "in conformity with the principles which the President of the United States of America, in performance of the good offices requested by the Parties...proposed."

JAPAN: The yen continues to strengthen and has appreciated 10 percent against the dollar since the upswing began two months ago. Some Japanese monetary officials believe the yen could appreciate from its present level of 273 yen to the dollar to 265 yen in the coming weeks. Japan's continuing balance-of-payments problems, however, make likely a weakening thereafter.

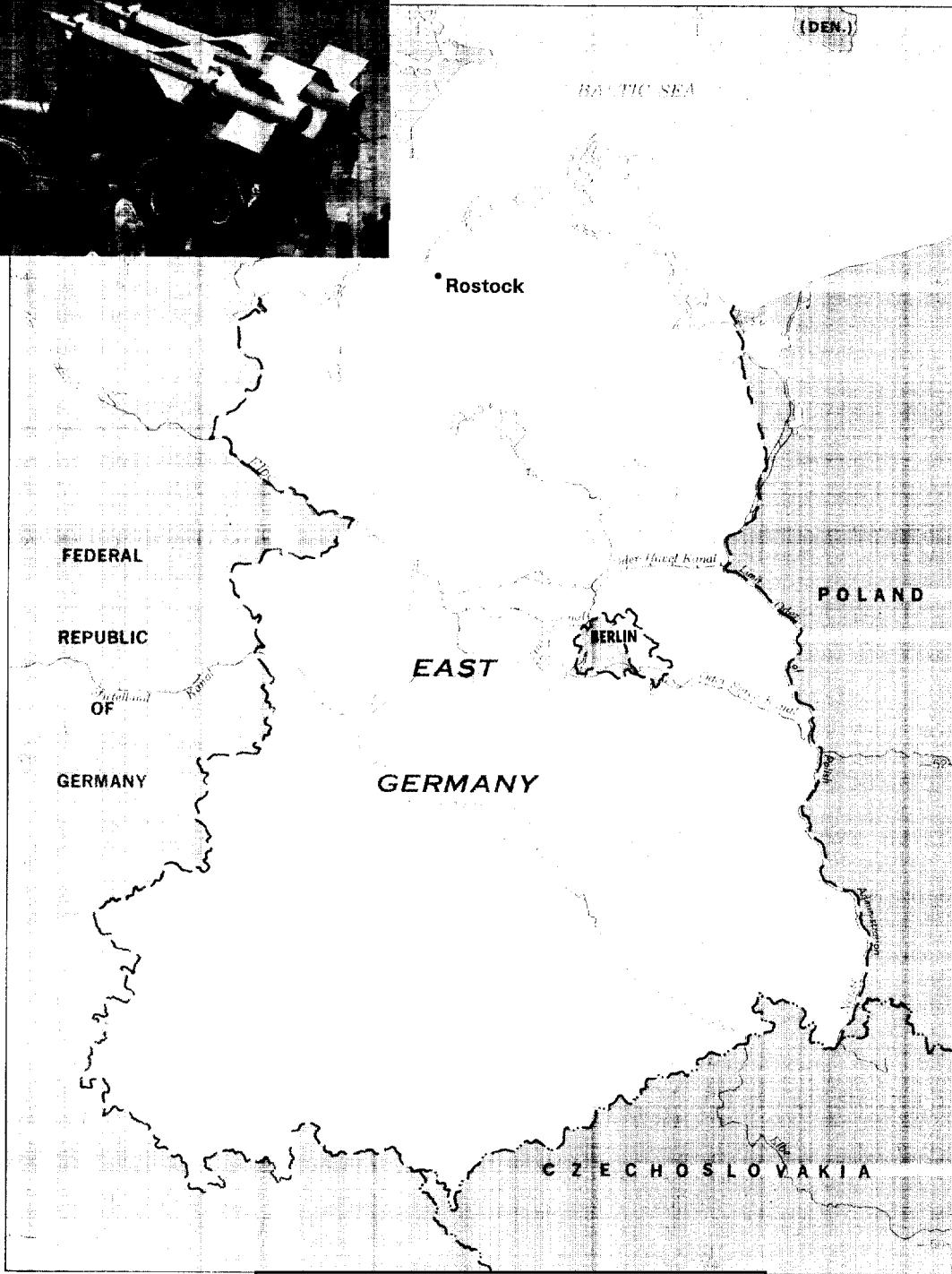
An ample supply of dollars in the Tokyo money market this month has resulted from a reduction in net capital outflows and a strong export performance. Japanese banks have been supplying fewer dollars to overseas investors and the Finance Ministry's recent relaxation of controls on capital inflows has yielded about \$150 million. The inflow reflects overseas borrowing by industrial firms. In addition, a large quantity of dollar export contracts have been sold in the market, reflecting in part a speed-up of exports in anticipation that dockworkers and seamen will strike next month. Although the level of overseas borrowing is likely to remain high, exports may slump next month following the unusual acceleration in March.

Despite the favorable trends, the balance of payments still will be about \$500 million in deficit this month. Both oil and non-oil imports are growing rapidly and net long-term capital outflows, while declining, remain large. In addition, Japan recently has been running monthly deficits of \$400-\$500 million in service payments. These foreign exchange losses should begin to be felt by late April or early May, leading to a dollar shortage and a weakening of the yen.

* * * *

Industrial production last month was only slightly lower than the level of the two previous months and 9 percent above the level in February 1973. Production has not risen in the last three months, because of oil conservation measures and

East Germany Receives SA-3 Missiles



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some slowing in domestic demand. Demand remains fairly strong in some sectors of the economy, however, and the Bank of Japan announced Tuesday that credit would remain tight during the second quarter of the year. Credits extensions will be held to approximately the same level as in the first quarter. The rise in wholesale prices has been temporarily halted, but recent price increases granted for petroleum products will cause another jump in prices next month.

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FOR THE RECORD

East Germany - USSR: The East Germans have received their first SA-3 surface-to-air missiles from the USSR and are positioning them near Rostock on the Baltic coast. Previously, Czechoslovakia and Poland were the only Warsaw Pact countries outside the USSR to have these missiles. Soviet forces in East Germany, however, have had the SA-3 system since 1968. Some of the Polish SA-3 sites are also located along the Baltic. The East German SA-3s will provide defense against low-altitude attacks from the

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Africa: A delegation representing the OAU's liberation committee left today for a three-week tour of Communist countries, including China, North Korea, the Soviet Union, and Romania. The delegation is seeking increased assistance in preparation for the committee's next meeting scheduled for mid-April in Cameroon. The OAU reportedly agreed last January to step up support for the rebels in Portuguese Guinea, and the April meeting is expected to focus on implementing that decision.

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